



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	SB0107	Title:	Revise K-12 school district expansion laws
Primary Sponsor:	Brown, Taylor	Status:	As Introduced

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|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$9,007,935	\$5,921,870
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>(\$9,007,935)</u>	<u>(\$5,921,870)</u>

Description of fiscal impact: SB 107 revises the eligibility criteria procedure and funding for an existing elementary district to expand into a K-12 school district. The cost associated with this bill is approximately \$15 million projected in the 2019 biennium with no state impact in the 2017 biennium.

FISCAL ANALYSIS

Assumptions:

- The average number belonging (ANB) used to determine the general fund budgets for K-12 public schools will be as follows. These estimates are for current year ANB, which is used to calculate the budgeted ANB as determined by 20-9-311(13) and (14), MCA.

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
K-6 ANB	82,917	83,643	84,131	84,689	84,954
7-8 ANB	22,167	22,239	22,452	22,695	23,276
9-12 ANB	<u>43,189</u>	<u>43,253</u>	<u>43,390</u>	<u>43,582</u>	<u>44,164</u>
	148,273	149,135	149,973	150,966	152,394

- The number of FTE (including special education cooperatives) generating the quality educator payment is estimated to be:

	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
School Districts	12,190.893	12,190.893	12,190.893	12,190.893	12,190.893
Special Ed Coops	<u>174.572</u>	<u>174.572</u>	<u>174.572</u>	<u>174.572</u>	<u>174.572</u>
Total FTE	12,365.465	12,365.465	12,365.465	12,365.465	12,365.465

3. The present law inflation applied to the Basic and Per-ANB Entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, and the At Risk Components (20-9-326, MCA) is 2.33% in FY 2016 and 1.79 % in FY 2017. For the present law budget, entitlement and component is set as follows:

<u>Basic Entitlements</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Elementary Basic	\$40,000	\$50,000	\$50,895	\$51,526	\$52,093
Middle School Basic	\$80,000	\$100,000	\$101,790	\$103,052	\$104,186
High School Basic	\$290,000	\$300,000	\$305,370	\$309,157	\$312,558

Basic Entitlement Increments

Elementary (Each 25 ANB > 250 ANB)	\$2,000	\$2,500	\$2,545	\$2,576	\$2,605
Middle School (Each 45 ANB > 450 ANB)	\$4,000	\$5,000	\$5,090	\$5,153	\$5,209
High School (Each 80 ANB past 800 ANB)	\$12,000	\$15,000	\$15,269	\$15,458	\$15,628

<u>Per ANB Entitlements</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Elementary Per-ANB	\$5,226	\$5,348	\$5,444	\$5,512	\$5,573
High School Per-ANB	\$6,691	\$6,847	\$6,970	\$7,056	\$7,134
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

<u>Components</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Indian Education for All	\$20.40	\$20.88	\$21.25	\$21.51	\$21.75
Indian Achievement Gap	\$200	\$205	\$209	\$212	\$214
Quality Educator	\$3,042	\$3,113	\$3,169	\$3,208	\$3,243
At Risk	\$5,149,426	\$5,269,408	\$5,363,730	\$5,430,240	\$5,489,973
Data for Achievement	\$15.00	\$20.00	\$20.36	\$20.61	\$20.84

4. Present law (20-9-326, MCA) requires the Governor to include inflationary adjustments for the basic and per-ANB entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, and the At Risk Components in the recommendations presented to the legislature. These present law adjustments result in the following expenditures:

<u>Payment</u>	<u>FY 2016</u>	<u>FY 2017</u>
Direct State Aid	\$435.3 million	\$443.9 million
Guaranteed Tax Base Aid	\$158.9 million	\$160.9 million
County Retirement GTB	\$37.5 million	\$38.7 million
Indian Education For All	\$3.1 million	\$3.2 million
American Indian Achievement Gap	\$4.0 million	\$4.0 million
Quality Educator	\$38.5 million	\$39.2 million
Data for Achievement	\$3.0 million	\$3.0 million

5. The Natural Resources Development payment is estimated to be \$4.9 million in FY 2016 and \$8.1 million in FY 2017 with offsetting GTB savings of \$2.3 million in FY 2016 and \$3.7 million in FY 2017.

6. Direct State Aid, GTB, and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division, and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates, and estimated property tax values.
7. The state special education allowable cost payment remains at the FY 2015 level of \$42.8 million per year.
8. The statewide taxable valuations are forecast to increase by 1.20% in FY 2016 and 3.30% in FY 2017.
9. SB 107 proposes that an existing elementary district that is not part of a unified school system or governed by a joint board with a high school district and with a calculated ANB of at least 1,000 may create a high school district solely for the purpose of expanding an elementary district into a K-12 district. OPI has determined there are only three districts that currently meet this eligibility criterion: East Helena Elementary/Helena High School (1,197 elementary ANB), Hellgate Elementary/Missoula High School (1,463 elementary ANB), and Lockwood Elementary/Billings High School (1,260 elementary ANB). It is assumed for this fiscal note that all three eligible districts would choose to become K-12 districts.
10. The trustees of an existing elementary district may resolve to request the county superintendent to order an election to allow the creation of a K-12 district provided in 20-6-326, MCA. In SB 107, if the proposition to create a high school district solely for the purpose of expanding the elementary district into a K-12 district is approved by the electors, the proposition results in a transition costs tax levy. This levy is to be used to cover the costs of tuition and transportation of the newly created K-12 district's students to the existing district until new facilities are ready for students. The transition costs tax levy is funded using a building reserve fund levy as provided in 20-9-502, MCA.
11. The newly created K-12 district pays the existing district tuition and the existing district continues to count the students for ANB until the second year the students are actually enrolled in the newly created K-12 district and no longer attending the existing district. The ANB is used to determine the existing district's budget limits. The ANB adjusts over a three-year period in the existing district as the three-year averaging applies.
12. It is assumed for purposes of this fiscal note that all three of the eligible school districts would pass a proposition to create a new K-12 district in FY 2016. It is estimated that none of the districts would be prepared to enroll students until at least FY 2018. Newly created K-12 districts can assess the transition costs tax levy for up to five years. The transition levies allowed in this bill are paid by local taxpayers with no state fiscal impact in the 2017 biennium.
13. SB 107 directs the calculation of ANB for the first year of enrollment for the newly created K-12 high school district to be determined by dividing the ANB of the elementary district by nine (number of grades in the elementary district) and multiplying by four (number of high school grades). The following table shows the estimated first-year ANB for the three districts currently eligible.

	High School ANB for FY 2018
East Helena Elem	544
Hellgate Elem	664
Lockwood Elem	573

14. In the first year students are enrolled in the newly created K-12 district, the state would pay, per the school funding formula, for the same ANB in both the newly created K-12 districts and the existing school districts. In the second year, the existing districts would begin adjusting for the decrease in students over a three-year period because of three-year averaging used to calculate ANB. The newly created districts' budgets would be calculated using the actual prior year ANB.

15. It is assumed for this fiscal note, that the taxable valuation for the newly created K-12 districts will be deducted from the taxable value of the existing districts for purposes of calculating the existing district' levies, once the proposition to create the new districts has passed.
16. The taxable valuation adjustments for both districts would be adjusted when the newly created K-12 districts have enrollment and calculate their general fund budgets (FY 2018). Following is a table showing the estimated taxable valuation for the districts in FY 2018:

	Current Law Taxable Valuation	Proposed Law Taxable Valuation
East Helena (HS)	\$0	\$13,263,295
Hellgate (HS)	\$0	\$30,820,299
Lockwood (HS)	\$0	\$21,316,273
Helena HS	\$112,458,087	\$99,194,792
Missoula HS	\$185,347,244	\$154,526,945
Billings HS	\$238,413,203	\$217,096,930

17. For purposes of this fiscal note, it is assumed that the newly created K-12 districts will have 1.00 FTE teacher per each additional 30 ANB. It is also assumed that the existing high school districts will not decrease the number of teacher FTE.

	Total FTE
East Helena Elem	18
Hellgate Elem	22
Lockwood Elem	19

18. SB 107 directs the block grants in the existing districts will be prorated to the newly created districts' per ANB. Block grants were adjusted as a proportion of the initial year of enrollment current year ANB.

	Current Law Block Grant	Proposed Law Taxable Valuation
East Helena (HS)	\$0	\$202,996
Hellgate (HS)	\$0	\$268,671
Lockwood (HS)	\$0	\$223,760
Helena HS	\$1,141,850	\$938,855
Missoula HS	\$1,451,644	\$1,182,973
Billings HS	\$2,088,423	\$1,864,664

19. For the purpose of this fiscal note, OPI assumes that references to ANB refer to current year ANB.
20. There is no change to American Indian Achievement Gap funding as this payment is made based on number of American Indian students in a district and they would be reported in the district of attendance in either the newly created K-12 district or the existing district and though the district might change the amount of the payment would not change.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Local Assistance (DSA)	\$0	\$0	\$5,913,078	\$3,794,525
Local Assistance (GTB)	\$0	\$0	\$2,735,289	\$1,791,805
Local Assistance (Indian Ed for All)	\$0	\$0	\$38,309	\$23,447
Local Assistance (Quality Educator)	\$0	\$0	\$189,272	\$191,337
Local Assistance (Data for Achieve)	\$0	\$0	\$36,706	\$22,466
Local Assistance (Retirement GTB)	\$0	\$0	\$95,281	\$98,290
TOTAL Expenditures	\$0	\$0	\$9,007,935	\$5,921,870
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$9,007,935	\$5,921,870
TOTAL Funding of Exp.	\$0	\$0	\$9,007,935	\$5,921,870
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	(\$9,007,935)	(\$5,921,870)

Effect on County or Other Local Revenues or Expenditures:


1. Local property taxes will shift among school districts as a result of creating new high school programs, transferring students among programs, and construction of new high school buildings. These impacts are unknown both in terms of timing and amounts.
2. Local property taxes in the existing high school districts will have less tax base to levy school mills on once the new K-12 district is formed. It will become the responsibility of the newly created K-12 district local property taxpayers to bear the cost of the new district as well as the cost of new facilities to house the new high school program. These costs have not been calculated for this fiscal note.
3. Debt service for newly bonded facilities has not been included in this fiscal note.

Technical Notes:

1. SB 107 is not clear when the existing district would reduce the taxable value of the newly created K-12 district for purposes of calculating the existing district budget and mill levies.
2. This bill is unclear how the first year of the newly created K-12 district GTB subsidy for the high school program is to be calculated.
3. SB 107 (Page 10, lines 14-15) requires the OPI to adjust BASE aid only for any difference between the anticipated enrollment and the October enrollment. Under current law, for all other districts, the OPI is

required to compare the enrollment for all three counts to the anticipated enrollment and adjust BASE aid accordingly as set forth in 20-9-314, MCA.

4. Current law related to anticipated enrollment allows for adjustments downward when enrollment does not materialize. Should a district realize growth beyond the estimated number, current law is to apply for unanticipated enrollment increase pursuant to 20-9-166, MCA. In these situations the portion of BASE aid that is adjusted is direct state aid. GTB aid, the natural resource development payment, and special education allowable cost payment are not adjusted.
5. The purpose of multidistrict cooperative agreements, pursuant to 20-3-363, MCA, is to provide for a pooling of resources of participating districts. The purpose of the multidistrict cooperative agreement described in SB 106, page 3, lines 23-30 is for the dissolution of obligations and distribution of property, which is in conflict with the purpose outlined in 20-3-363, MCA.
6. Bond counsel has indicated that the provisions of SB 107 allowing the existing high school district to negotiate with a new district regarding the retirement of bonded indebtedness approved prior to the creation of the new high school district could impair security of holders of outstanding bonds.
7. The negotiation concept added in SB 107, New Section 1, vitiates the long-standing rule that, when district boundaries are changed to reduce the size of the district, outstanding bonded indebtedness remains the bonded indebtedness of the original territory. The bondholders of outstanding high school district bonds are entitled to enforce the covenants made by the high school district with regard to the security for the repayment of the bonds at the time of issuance of the bonds.
8. The voters in the seceding district voted on the bond question that gave rise to the outstanding general obligation indebtedness and that vote is controlling on the high school district as it existed at the time of issuance of the high school district bonds as disclosed to bond purchasers.
9. The bill could, therefore, impair the credit of high school district bonds and complicate clear and concise disclosure for future bond issuances, however, a district would need to conduct appropriate due diligence with rating agencies to conclude the impacts on any particular district. It is hard to forecast how rating agencies would assess the potential secession of sizable and material portions of the district and the corresponding loss in taxable value.

 1/19/15
Sponsor's Initials Date

 1/19/15
Budget Director's Initials Date